



PA 18-157—SB 528 (VETOED)

Finance, Revenue and Bonding Committee

**AN ACT CONCERNING STATE CONTRACT ASSISTANCE PROVIDED
TO CERTAIN MUNICIPALITIES**

SUMMARY: This act makes changes in the law that provides state assistance to financially distressed municipalities if they agree to state fiscal oversight and control. The assistance includes funding to pay down debt or restructure finances and statutory authority to issue deficit funding bonds. The type of assistance and degree of state fiscal oversight and control reflect the severity of a municipality's financial condition, which is determined according to a four-tier classification scheme with each tier subjecting the municipality to a higher degree of state oversight and control.

The act requires the legislature to exercise specific powers with respect to the most severely distressed municipalities that request state funding to repay bonds and other debt (i.e., contract assistance). By law, this assistance is available only to a municipality that applies for and receives designation as a tier III or tier IV municipality. The act (1) requires the Appropriations and Finance, Revenue and Bonding committees' approval of the contracts for providing the assistance that are proposed after the act's effective date and (2) prohibits the state from signing and executing them without the committees' approval.

Beginning in the sixth year after a municipality receives contract assistance, the act requires the legislature to annually reduce the municipality's total appropriated statutory aid, excluding education cost sharing (ECS) grants, by the amount of contract assistance for that fiscal year, unless the legislature appropriates alternative aid to the municipality. But the reduction must happen sooner if the municipality runs consecutive operating deficits, based on the act's criteria.

In addition to approving contracts, the act requires the legislature to perform specific oversight tasks for tier III and IV municipalities, including approving their total annual state aid and changing a municipality's designation from tier III to tier IV if the municipality's fiscal condition worsens. The act also sets fiscal criteria that trigger such a change without legislative action.

Funds from the Municipal Restructuring Fund (MRF) are another form of state assistance available to tier II, III, and IV municipalities. With respect to this fund, the act requires the (1) Municipal Accountability Review Board (MARB) to make recommendations to the governor and the Appropriations Committee about the MRF's status, and (2) Appropriations and Finance, Revenue and Bonding committees to hold a joint hearing on MARB's recommendations. MARB is the 11-member state board that oversees the designated tier municipalities.

EFFECTIVE DATE: Upon passage

STATE DEBT SERVICE ASSISTANCE TO TIER III AND TIER IV MUNICIPALITIES

Appropriations and Finance Committees' Approval of State Debt Service Assistance Contracts

The act adds the Appropriations and Finance, Revenue and Bonding committees to the existing statutory process for deciding whether to provide contract assistance to a tier III or IV municipality. By law, the Office of Policy and Management (OPM) secretary and the state treasurer may enter into contracts with these designated municipalities to help them repay debt if they agree to state oversight and control. OPM designates a municipality as tier III or IV based on statutory criteria.

If a designated tier III or IV municipality requests contract assistance, it must, by law, certify its projected debt service payments and bond issuance costs to the OPM secretary and the treasurer, who may rely on expert reports or estimates to evaluate the feasibility of refunding the debt. The act also (1) requires the municipality to certify these payments and costs to the Appropriations and Finance, Revenue and Bonding committees and (2) allows the committees to rely on expert reports or estimates to evaluate the feasibility of refunding the debt.

The act also requires the committees to approve each contract under which the state provides this assistance before the OPM secretary and treasurer may sign or execute it. But before this step can occur, the act requires the municipality to ask the secretary and the treasurer to enter into the contract.

Offsetting State Aid Reductions to Contract Assistance Recipients

The act generally requires the state to reduce its total annual appropriated statutory aid, excluding ECS grants, to a tier III or IV municipality that receives contract assistance by the amount of contract assistance it received for that year. The reductions must begin in the sixth year of contract assistance, but may occur sooner if the municipality has an operating budgetary deficit as described below. The total annual reduction must equal the total amount of contract assistance the municipality received for the applicable fiscal year, unless the legislature appropriates alternative aid to the municipality, which may be more or less than the total amount of contract assistance.

Under the act, the reductions in appropriated statutory aid must occur in the first five years of contract assistance if the municipality has consecutive annual operating deficits created by a cumulative negative unassigned fund balance in its general fund of 2% or more of its general fund revenues and operating transfers into the general fund. The reduction applies to the subsequent fiscal year's appropriated statutory aid. But the legislature may approve alternate appropriated municipal aid.

To determine if the deficit meets or exceeds the 2% threshold, the legislature must rely on financial statements audited by an independent auditing firm. But the act excludes cumulative negative unassigned fund balances that result from changes in financial accounting standards or reductions in state municipal aid.

MRF FUNDING RECOMMENDATIONS

The act requires MARB to make recommendations to the governor and the Appropriations Committee regarding the amount of funds the MRF needs to provide financial assistance to designated tier II, III, and IV municipalities under approved restructuring plans. MARB must make its recommendations in time for the governor to prepare his budget proposal.

Under the act, the Appropriations and Finance, Revenue and Bonding committees must hold a joint hearing on MARB's recommendations and, after the hearing make recommendations to MARB and the legislature.

LEGISLATIVE OVERSIGHT OF TIER III AND TIER IV MUNICIPALITIES

The act requires the legislature to perform several oversight tasks with respect to tier III and tier IV municipalities.

Approval of Total Annual State Aid to Tier III and Tier IV Municipalities

The legislature must approve the total amount of annual state aid to tier III and tier IV municipalities. In determining the appropriate level of annual aid to these municipalities, the legislature must consider MARB's recommendations about maintaining the funding level of the MRF.

Designating Tier III Municipalities as Tier IV Municipalities

The act authorizes the Appropriations and Finance, Revenue and Bonding committees to recommend that the legislature designate a tier III municipality as tier IV. The committees may do this for tier III municipalities that receive MRF assistance if the tier change is needed to meet the fiscal needs specified in their plan. By law, a tier III municipality can become a tier IV municipality if (1) it requests it and the OPM secretary approves or (2) MARB, after following a specified process, recommends it to the governor, and he agrees (CGS § 7-576e(a)(1) & (2)).

AUTOMATIC DESIGNATION CHANGES

Besides setting conditions under which the legislature may change a municipality's designation from tier III to tier IV, the act also establishes fiscal criteria that automatically trigger such a change for a tier III municipality that receives contract assistance. The criteria are based on municipal deficits that are caused by factors other than cuts in municipal state aid. Applying those criteria, a municipality's tier must change from III to IV if the municipality has an annual general fund operating budgetary deficit of:

1. 2% or more of its general fund revenue in its most recently completed fiscal year or
2. 1% or more of its general fund revenue for two consecutive fiscal years.

The deficit determination must be based on financial statements for the applicable fiscal year, as audited by an independent auditing firm.

OLR PUBLIC ACT SUMMARY